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Bush Budget Story Is \$400 Billion of Fiction: Gene Sperling

Feb. 13 (Bloomberg) -- There is not much question about the Bush administration's narrative on the budget: in the face of unpredictable, external, deficit-exploding forces beyond their control, these brave budget warriors are successfully battling to return Washington to fiscal sanity.

According to this story line, President George W. Bush & Co. are faultless. Deficits are soaring because of natural disasters, military conflict and homeland security and those crafty Democrats committed to preventing an entirely Republican- controlled government from reining in spending

The main weapon in this budget war? Cuts in discretionary spending unrelated to national security. They are so devoted to this story line that President Bush was compelled to utter the wonkiest budget phrase to make it through a State of the Union speechwriting process: ``Every year of my presidency'' Bush said, ``we've reduced the growth of non-security discretionary spending."

The problem with this boast is that it exposes the Bush story line as fiction. Why? Because if there has been no growth in the part of the budget that funds things like research, worker retraining, and education in the last five years, then it should be clear that such spending hasn't contributed to what former Republican Secretary of Commerce Pete Peterson called a \$10 trillion swing in the deficit outlook." And if there has been no growth, that means cuts in this relatively small part of the federal budget won't provide a solution.

Don't Blame Defense

While the recent increase in spending on defense, homeland security, and the wars in Iraq and Afghanistan have played some role in today's deficit, they explain only a fraction of the long-term swing from projected surpluses to likely deficits of \$400 billion to \$500 billion a year.

Instead, just look at the costs of President Bush's signature spending and tax-cut plans. Or more precisely, let's look at how much they contribute to the expansion of the deficit in light of his decision to abandon pay-as-you-go, or the idea that new entitlements or tax cuts should be offset so they don't fuel the deficit.

The answer is stunning. The costs of President Bush's tax cuts (if made permanent) and his Medicare prescription drug benefit will be more than \$400 billion in 2011 alone. Include the extra cost of higher interest payments due to an increased deficit, and the costs exceed \$550 billion in 2011 and each year after.

Adds Up

How is that possible? Just add up publicly available estimates from the Joint Committee on Taxation and the Congressional Budget Office (CBO).

First, take your big-ticket tax cuts for the well-off: The repeal of estate tax is the biggest, costing just shy of \$60 billion. Cuts in capital gains and dividends taxes add another \$24 billion, while two provisions protecting the itemized deductions and personal exemptions of wealthy taxpayers together will cost \$12 billion.

Next, mix in \$107 billion to reduce income-tax rates, \$33 billion for the child-tax credit, \$8 billion to make the research and experimentation tax-credit permanent, and about \$14 billion of potpourri.

Top that off with \$60 billion for the costs of fixing the alternative minimum tax (AMT) tied directly to ensuring that President Bush delivers the new tax cuts as promised and you get \$318 billion. Now add \$87 billion for the Medicare prescription drug bill, stir, and we are at \$406 billion in 2011, which would be the first year the tax cuts are extended.

Half Billion

Of course, if we simply added the \$138 billion in additional interest costs from the impact of the tax cuts on the deficit, and ignored the prescription drug benefit, you would have a whopping \$456 billion cost for the tax cuts alone. If we add both initiatives together, plus the interest lost, the costs soar past \$550 billion a year.

Now don't get me wrong. Some middle-class tax cuts and a Medicare prescription-drug benefit were needed, and it may have been difficult for any White House to have made them completely deficit neutral. But this White House never even tried. There is no question that this free-lunch approach to fiscal policy is the single largest reason for the long-run deterioration of the deficit.

Anyone who tries to tell you that some supply-side miracle will make up for the \$400-billion cost of their tax cuts each and every year in the next decade is just blowing old, stale smoke. Sorry folks: the greatest sustained surge in revenue came with the fiscal discipline of the 1990s, not the fiscal recklessness of the 1980s or 2000s. No credible analysis shows otherwise.

Get Serious

Because the White House refuses to consider touching any of the more than \$130 billion in tax cuts that will go to those with incomes of more than \$200,000 in 2011 -- or repeal the giveaways to providers and drug companies in the prescription-drug bill -- virtually no one takes their calls for a new entitlement commission or new Medicare savings seriously.

And so our Bush budget warriors want to distract the public from their responsibility for the bleak budget outlook by short- changing some of the very investments our nation most needs -- health research, Head Start, mentoring for poor children seeking college, and putting cops on the street. Those are hardly the battles that we should be fighting if our aim is to control the deficit and invest wisely in our future.

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